George Weissman, Vice Chm

the achievement to John Murphy, the company's president and chief executive officer; William K. Howell, executive vice president and treasurer, and Lauren S. Williams, vice president, marketing.

The author of the March 1 article in Forbes expressed the opinion that the "entire diversification record of Philip Morris is a poor one, especially for a 'premier' consumer products marketer." (He compared it unfavorably with the status of Reynolds' non-tobacco acquisitions.) "Entire" was the wrong word. True, some of the ventures that had held a promise of success when first acquired proved to be unprofitable. These were Burma Shave, Clark Gum, the Lightfoot Company, which manufactured soap, and American Safety Razor. The gum company had been dissolved in April 1973; the soap manufactory was sold in the same month and it was not too long before the razor firm would be up for sale. But, in disproof of Forbes' derogatory opinion, Philip Morris Industrial, the paper, chemical and packaging groups, reported an operating income of $12,280,000, close to $4 million over that of 1973, And Mission Viejo, the home-building and community development company, was able to report an increase in operating income to over $4.7 million.

Wall Street analysts were providing glowing reports of the

continued economic growth of Philip Morris in its chief areas of activity. Elsewhere it was recorded that institutional investors had acquired 40 percent of the company's stock. That had an effect in lifting common shares almost three times higher than Reynolds' common during 1973.

Brands for the burning

In 1974 there were 27 new brands and brand extensions being tested in American markets. Most noticeable of these, for size alone were there no other reason, was Reynolds' extended offering--120mm in length--appropriately named More. It had a Swiss origin, named Makawat, described as a "long, thin, slow seller." This light-brown, paper wrapped cigaret (high in tar: 22mg) in a soft package, was the slimmest on the market: 20mm--4mm thinner than Virginia Slims. (The circumference for standard cigarets was 25.8 or 25.9mm). But More 120 contained only as much tobacco as a 100mm brand. Yet the Reynolds' technicians who developed More claimed that each unit delivered 6 more puffs than the usual 10 of the 100mm type. The test of this cigaret novelty in Oklahoma City was regarded as a triumph as sales reached 1.7 percent of the market there. That meant the brand was ready for full distribution. Each time a cigaret held 1 percent of the national market in that period it brought in about $60 million

at the factory.

To wholesale distributors the flood of tryouts was "a pain". It was remarked by one of the distributors in Dallas where More was also being tested that 40 brands controlled about 98 percent of total cigaret sales. There were at least "70 other brands just barely making a living" in the fraction that was left. (A few decades earlier seventy-five percent of American cigaret smokers were fully satisfied with Lucky Strike, Camel and Chesterfield).

John T. Landry, executive vice president of Philip Morris, U.S.A. and director of marketing was less than enthusiastic about new cigarets. Yet there was an industry compulsion about taking the consumers' pulse with a tempting variation of an old brand or a genuine novelty. Landry was of the opinion that established brands represented the greatest potential for sales success. But he acknowledged that the company was holding 15 untested brands in reserve--just in case. Meanwhile, despite the Landry opinion, a Japanese brand, Miyako was being offered in the Seattle market under the Philip Morris banner. This test resulted from an agreement with the Japan Tobacco Company. The only new cigaret of the firm, Philip Morris International, was testing consumer reaction in San Francisco.

Chiefly fiscal and legal

A measure of relief for the industry came through the restraint of legislatures and municipal councils in regard to further taxation of cigarets. It will be remembered that there was a frequency of increases in taxes after the report of the Surgeon General's committee in 1964. There were but two states in which an addition to the excise on cigarets was imposed: Arizona and Maine. In the former the 10 cents tax became 13 cents, in the latter the legislature imposed an extra 2 cents bringing the per-package tax to 16 cents. The revenue to the U.S. Treasury from taxable cigarets in 1974 was $2.4 billion; to state exchequers $3.3 billion, while municipalities and counties had to be content with a mere $1 billion.

New York Governor Wilson, in an address to members of the Teamsters Union during a bill-signing ceremony, expressed concern about his proposal to repeal the New York City tar/nicotine tax. (See p. 249 regarding cancellation.) Two months earlier he had appealed for a repeal of the full City tax. He asked that the Union members put pressure on hesitant legislators to adopt his proposals. The purpose of the requested repeals was to help eliminate bootlegging in a "smugglers' paradise." If the desired legislation were enacted New York City would receive $50 million annually to compensate for its revenue loss. The tax on cigarets in New York City alone in 1974 came to about $51.5 million.

Philip Morris and its consolidated subsidiaries were substantial contributors to United States and foreign treasuries in 1974: $619,504 million to the former for domestic; $349,363,000 to the latter for foreign excise taxes. The author of Forbes' article (October 15, 1974) on the cigaret industry wasn't at all sympathetic to the complaints of Big Six executives and Small Others about the "regressive" and "excessive" nature of domestic taxes on cigarets.

"On balance," he wrote, "the tax per pack has gone up only 7 cents, but the average retail price per pack has gone up 14 cents. The simple fact is that every time costs have gone up a notch, gross profits have at least held even or gone up a notch or two."

The writer disregarded what is generally considered to be a **punitive** element in this particular taxation after the use of cigarets had been linked with various lethal human diseases. And he ignored such a pertinent fact as the tax differential between, say, North Carolina and the high tax states, which made **bootlegging** of cigarets so profitable an operation.

A survey by the Business International Corporation dealt with living standards in 47 American cities. It reported that the

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average price in New York City for packages of cigarets was 50 cents; elsewhere, as much as 65 cents. The figures should have been reversed. An "honest" 50 cents package of cigarets in New York City during the 1970's was found only in museums. And at the time of the survey report the City Council was considering an additional 5 cents levy.

It was pointed out earlier, in chapter 1, that personal injury damage suits against cigaret companies were no longer an industry problem. But the management of the chief corporations are well aware that they live in a litigious world and are rarely unprepared for defensive action.

Admittedly, however, they were unprepared and startled, too, when tobacco growers brought two "class actions" against the Big Six. The complaints against them were based on alleged violations of federal anti-trust laws during 1970-1974. The plaintiffs could hardly be accused of being moderate or modest. They asked for a reimbursement of approximately $2.5 billion for purported damages.

Philip Morris seemed not to be even slightly worried. Its counsel had expressed the opinion that neither case could be regarded as class actions, and that factual and legal defenses of the corporation were sufficient.

A case reminiscent of one brought against Philip Morris in 1965*--and generally regarded as unjustly brought--was finally adjudicated in 1974. The defendants were the American Tobacco Company and the Tobacco Workers International Union. By order of the federal trial judge, Negroes and women were to displace white employees who, despite less seniority, were in higher job qualifications. Both the company and the union were found to be in violation of the race and sex discrimination conditions of the Civil Rights Act of 1964. Because of this infraction, the judge expressed the opinion that some of the mistreated employees could be entitled to seven years back pay.

Abroad and at home

The activities of the highly successful operating company, Philip Morris' International division, continued its usual **pace** in 1974. Its representatives seemed to be everywhere at once: in Russia (as already recorded), Brazil, Malaysia, Singapore, Greece. Once it has established itself in Tierra del Fuego it will have reached the last global outpost. Then,

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* See the "Third Continuation", pp. 78-79

perhaps, its managers could relax.

While collecting new geographic sites, the division found time to launch a premium-priced brand, Philip Morris International in Europe. It was then marketing 175 brands in around 160 countries and territories.

Philip Morris common was selling in the big exchange for 98¼, on April 24, the day on which the annual meeting of stock holders was held. The audience heard the welcome news that there would be a stock split of 2 for 1--but only if those present approved. They approved. Thereafter the range of common shares was 61-3/8-- 34-1/8. It closed at the year's end at 48.

Forbes, a standard source of financial data, put Philip Morris' earnings per share at 155 percent "during the preceding five years." That statement was in the March 1, 1974 issue. By October 15, 1974, the company's earnings, according to Forbes' reporter, had "climbed an amazing 149 percent . . . in the past five years." Whatever the basis for calculation, whichever figure was correct, the fact remained that earnings had soared. Maxwell reported in his "year-end revised estimates for 1974" that Reynolds now held 31.4 percent of the domestic market with

185.83 billion units sold. The comparable figures for Philip Morris were 22.5 percent with total domestic sales of 133.22 billion cigarets. The once-mighty member of the Big Six, Liggett & Myers--now the Liggett Group--was down to 29.5 billion in unit sales. That, according to Maxwell, gave the Group but 4.7 percent of the market.

The sprightly behavior of Marlboro remained a cause of apprehension for Reynolds' management. This was reflected in its heavy advertising expenditure for Winston. It took no special prophetic talent to predict that, in a year or so, Marlboro would take Winston's crown.

Virginia Slims received a limited "plug," of special interest to women, when the Roper Organization conducted "The Virginia Slim's American Woman's Poll," Volume III. There were 3,000 women and 1,000 men interviewed. Each was queried on the status of women. Efforts to strengthen their societal development were supported by 57 percent of the ladies questioned. Yet the movement to improve the status of women received its greatest support from mere men. A slim booklet on the results of the poll was issued by Philip Morris.

Smoke and crops rising

Cigaret prices were increased by manufacturers in 1974. Philip Morris again set the trend by its announcement that on January 10 it would move up the list price on its entire cigaret line 15 cents per thousand. As it had become obvious that no one had stopped smoking because of this minor increase the company became bolder by announcing a further raise of wholesale prices to 70 cents per thousand effective May 13. This time Philip Morris had company: three others of the Big Six.

Reynolds joined the club, also in May, by adding 70 cents each thousand to its full list of cigarets and little cigars. Then, five months later, it tacked on another 50 cents per M. Once again Philip Morris succumbed to an irresistible urge by advising wholesalers that 70 cents would be added to the cost of 50 filled cartons. That, too, was at the end of October; the third raise in a year. The new price was echoed by the Lorillard Division of Loew's Corporation which increased its wholesale cigaret prices by the same amount as Philip Morris' latest raise.

Tobacco production and sales for both flue-cured and burley had risen. The former totaled 1,245,109 pounds and brought an average

price to growers of 1.05 cents per pound--16.9 cents above the 1973 price--for a total of $1,307,364,000. Burley farmers produced 610,438,000 pounds--an increase of nearly 150 million over 1973 and brought to growers the high average price of 113.7 cents a pound (20.8 cents above that of 1973), for a crop value of $694,068,000.

In passing it may be of interest to know that the crop of an acre of tobacco will produce over a million cigarets. Yet that acreage production, despite the 1974 increase in commodity prices, made an average return of only $1,875 to tobacco farmers.

In 1974 there were 616,330 acres set to flue-cured, with a yield per acre of 2,014 pounds. The burley acreage was 260,750 with a yield of 2,350 pounds per acre.

There had been a 10 percent increment in acreage allotments of flue-cured tobacco to meet foreign demands for that type. Early in June 1974 the United States agreed to supply Egypt with "American tobacco," to a value of $10 million.

"Foreign demands" appear to have been exaggerated or miscalculated. For the total of 548,293,000 pounds of flue-cured shipped out in 1974 was about 50 million pounds below the exports of that type in 1973. Burley, too, despite the quantity of 67,902,000 pounds

which went to buyers abroad was nearly 19 million pounds less than the 1973 export total.

The export department of Philip Morris shipped out around 49.5 thousand pounds of leaf. It was not missed, for the firm's leaf inventory in 1974 had reached 873,727,000 pounds. Of the 59.3 billion cigarets exported from the U.S. in the same year, Philip Morris' share was over 17 billion.

Per capita consumption of cigarets, based on the American smoking population of those 18 years old and over was 4,141. This mighty puffing of the diminutive, fragrant white rolls cost consumers about $13.3 billion. The FTC reported early in March 1975 that domestic consumption of cigarets in 1974 reached a record of 602.2 billion. A revised count by the Department of Agriculture (March 1978) gave 635 billion as output and 586.6 billion as total U.S. consumption in 1974.

Cigaret novelties

By 1974 a considerable number of patents had been granted for tar-less or nicotine-less cigarets, substitutes for tobacco, self-lighting cigarets, unusual packagings, simple gadgets and other novelties presumed to be of such interest to smokers that manufacturers could hardly afford to reject them. Some

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of them were ingenious but for the most part they rarely got past the Patent Office. A number achieved a paragraph or two in journals that thought patent awards were newsworthy items.

Except briefly in a very few instances, inventors' faith in their own creations was seldom shared by cigaret manufacturers. And only rarely could the private developer of an innovative cigaret have been able to promote his patent through his own resources.

An invention of obvious merit became available during the year. It was described as a "self-extinguishing cigarette." The device had been created at the request of the National Association of Furniture Manufacturers. It was then submitted by the Association to the Consumer Product Safety Commission as a cigaret which would prevent combustion of upholstered furniture.

The chief companies in the cigaret industry and the furniture manufacturers' association as well are members of the National Safety Council to which the invention was submitted by the Safety Commission for approval. Yet, citing "sensitive conditions in the tobacco industry," the Council dismissed the new device. What the unknown inventor said of this unexpected rejection has not been recorded but was surely unprintable. What objective observers of the incident said was that the Council members were stupidly bureaucratic, equivocal and probably deliberately evasive.

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Meanwhile, a subsidiary of the Celanese Corporation (as reported in the preceding chapter), was stubbornly proceeding with its "safe cigarette" project in its Charlotte, North Carolina laboratory. Since 1958 it had expended $16 million for research and development of the cellulose-based material it had named Cytrel, which would be the chief ingredient in its ersatz cigaret. The company was getting close now to the day when it could offer its long-delayed product to the world of smokers at large. As mentioned earlier, a trial of the product had been made with a limited group.

In mid-May 1974 the Celanese Fibers Co. announced that it had completed plans for a new facility in Cumberland, by 1975. Initially, it would manufacture 9 million pounds of Cytrel annually. Production in "commercial quantities" could possibly commence as early as 1976.

Two five-year supply contracts for Cytrel had been signed by Carreras--Rothmans Ltd., and Gallaher, Ltd. These two British firms were to be associated with Celanese in a $6 million program of evaluation.

Miscellany

One of the results of the 1964 report of the Surgeon General's Advisory Committee was a fairly wide expectation that health and life insurance companies would rate up cigaret smokers. Nothing much of the sort happened. By 1966 four companies in the United States, only one of better than moderate size, had offered modest premium rebates to non-smokers.*

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* See the "Third Continuation," p.20

By 1974, however, there were around two dozen national life insurers offering non-smokers premium discounts. A number of these companies required a sworn statement that the lips of an applicant for a policy had ne'er been sullied by nicotine. The Farmers Insurance Group offered 20-25% discounts, in the 22 states where it sold policies, to any one over 21 who was the principal operator of an auto, provided that the applicant hadn't had contact with cigarets, cigars or pipes for at least two prior years.

Other companies were giving small discounts on fire or disability policies which usually contained some restrictive clause relating to smoking. There were no major companies among these insurers.

One of the more confusing news reports of 1974 related to the Strickman Foundation. That organization held the controlling interest in the controversial filter developed by Robert L. Strickman. It was publicly announced that the Foundation had paid $400,000 to Columbia University to reimburse it for the expenses incurred through testing, developing and promoting the filter.

What puzzled those most familiar with the University--Strickman alliance was why the Foundation, if it had indeed made the reported payment, felt obligated to do so. Ordinarily an inventor would not be required to pay costs for testing, etc. of his patented device if an interested manufacturer engaged in such an activity. And how could the Foundation

have acquired so considerable a sum to pay its alleged debt? So far as was known, no tobacco company was making commercial use of the Strickman filter in 1974.

The Richmond Operations Center, officially dedicated in October 1974, was in such an efficient state, that it was producing over 200 million cigarets a day late in the year. This achievement had been made possible through a series of circumstances that must be regarded as highly unusual--even remarkable.

The construction of the building preceded the schedule for completion! The builders did not run costs past the budget! The unavoidable rise in construction costs came after the end of the work!

The tokens of esteem awarded to Philip Morris had become so frequent as to have lost their novelty. The usual visual expressions of admiration, presented by the foremost business periodicals, were displayed through engrossed scrolls. Obviously, each was welcome, as were the published accolades that accompanied them. Another came in July 1974 when *Industrial Research* magazine named the Richmond Research Center "the Laboratory of the Year."

Young man with a calling

On April 17, 1933, over NBC radio for the first time, a new call went over the airwaves. It was the ringing B-flat of a diminutive page boy

who, in the United States, was to become the most famous living trade mark. The radio message was invariable: "Call for Phil-eep Mor-r-rees," and it was regularly presented by a young man of 23 who could make four feet in height by a little stretching.*

He was Johnny Roventini who, almost at his first appearance, became known as "Johnny Philip Morris." For the next several decades his tireless, perfectly pitched voice could be heard, a relief from the clatter of wearying commercials, giving his all for Philip Morris.

On October 14, 1974, the little man who had an English forerunner early in the 20th century** retired from active duty. For the preceding four decades plus a year, he had been the single most important part of Philip Morris' promotions. Both Johnny and the Company had done much for each other and both had been richly rewarded.

The culture scene

It must be with considerable interest and surely an occasional touch of envy that the management of other firms in the cigaret industry and those in unrelated fields observe the generous support given by Philip Morris and its affiliates to events in the broad world of culture. This interest in non-commercial enterprises was not calculated

* See "The Philip Morris Century," 1956, pp. 173-181 for an account of Johnny.

** See the advertisement of a page boy following p. 56 in "The Philip Morris Century" 1956.

for its public relations value alone. Recipients recognized that the impulse behind each contribution from the Philip Morris group was altruistic and the appreciation each expressed contained a tacit acknowledgement of that motive.

Near the end of January 1974 the firm announced that drawings and bronzes by Charles Marion Russell would be sold at auction by Sotheby--Parke Bernet Galleries. One of the famed bronzes had an upset price of $25,000. The National Cowboy Hall of fame in Oklahoma City was to be the beneficiary of the proceeds.

Concurrently, the parent company was aiding the Richmond Ballet in Virginia; the City Center of Music and Drama in New York City; joining the National Endowment of the Arts in supporting a traveling exhibition of American Indian art, while Benson & Hedges (Canada), Ltd. was sponsoring "The Flowering of American Folk Art,1776-1876" organized by the Whitney Museum as well as "In Praise of Hands--Contemporary Crafts of the World," an international crafts exhibition of 1,000 works from 50 countries.

Miller Brewing Company took on the responsibility for "Metropolitan Opera in the Parks"--a series of eight enthusiastically received performances in New York City parks during part of the 1974 summer.

The foregoing is a selection of the broadly based corporate support of the arts by the Philip Morris group during part of a single year. The programs

presented were intended to enrich the lives of large and diverse audiences. While maintaining its sponsorship of the cultural evidences of society, management did not neglect the human element. The company's interest in neighborhood renewal and improvement in environmental conditions was demonstrated as occasion arose. In its spontaneous "pursuit of happiness" for others (while sharing in the multiple pleasures it provided), Philip Morris became an inspirational force to other affluent companies.

1975

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There were constructive occurrences in 1974 which had held the attention of the cigaret industry and had enlivened the chronicle of Philip Morris. Chief among these was the persevering encroachment of Marlboro on the top place long-held by Winston; the considerable increase in the total operating revenues of Philip Morris' companies and the creation and development of the Richmond Operations Center.

But during 1975 more excitement was engendered than in the two preceding years. There were elements which were hardly welcome to the industry: successful official attempts to isolate cigaret smokers more vigorously than before in public areas and, most serious, a militant harassment of the cigaret industry by the Federal Trade Commission.

Of chief importance among the positive achievements was the result of a 12-years' research project conducted by Philip Morris' scientists. They had finally produced a cigaret in which the nicotine and "tar" components had been convincingly reduced, without affecting the natural flavor of fine tobaccos. This result had long been the most elusive qualitative factor in tobacco research. The introduction of the Philip Morris "low-tar" brand was to engender intense competition. Insofar as tar was concerned, scientists in the chief cigaret companies

were trying to see how low they could get.

Testing and vending

Something regarded as novel had been added to a number of cigaret brands by American manufacturers. What was added was a 20mm extension of the popular 100mms. But the promotional splurge which presented the 120s during testing and marketing as an innovation, conveniently ignored the elaborate "after-dinner" cigarets, the 5½ inch Banquet and the shorter Ambassador which preceded the first 70mm "Turkish" brands. So, while novel in the 1970's, the 120s were not, as believed, the first elongated cigarets of American manufacture.

Reynolds had been the earliest to go national, late in April 1975, after September 1974 testing, with the lengthened type fittingly named More. Philip Morris was not too far behind, as industrial time goes, with its 120. Before the end of February 1975 it was testing a sleek cigaret, Saratoga (slimmer than Virginia Slims or Silva Thins), in New York and California. This cork-tipped novelty, wrapped in white paper, was packaged in a simulated leather crush-proof box.

The introductory slogan when testing the new brand began was "Enjoy smoking longer without smoking more." But Saratoga had a strike against it. Cigaret specialists were expressing the

opinion that, among the dozen new brands undergoing market tryouts, More was the best of the 120mms. Despite that unwelcome opinion, Philip Morris was sufficiently encouraged by consumer acceptance during the testing period to go national with Saratoga in April with "one of the most aggressive promotions in its history." (Industry men who could add without trouble were reporting advertising costs for More and Saratoga in the range of $21,000,000 each, annually).

Following the originals came American Brands' Long John and Brown & Williamson's Tramps. So far as could be determined, the industry statement that the same amount of tobacco used in 100mm cigarets was compressed in the 120s is correct. Long Johns imitated More with its brown wrapper. Tramps appeared in tan stock. These types were deceptively like slender little cigars but one whiff was enough to assure a smoker that they were composed of genuine cigaret tobaccos.

Testing is regarded by all manufacturers of cigarets as an absolute essential of merchandising. Yet one is inclined to wonder, on the basis of mere reason and the results of testing, why a firm with three or four profitable, long-established fixtures in the top 20 brands, just doesn't rest on its laurels--as several have done for many years.

To those not involved in the arts of merchandising, a good deal of testing has the characteristics of compulsive gambling. The practice has all the conventional elements of games of chance: high risks, high hopes, high expense--and high failures. Since 1971 at least 40 new brands were offered to smokers. Only three made gainful consumer acceptance. The figure of $600,000 in the mid-1970's was generally accepted as the least possible cost for a cigaret tryout in one of the chief markets.

When filter-tipped cigarets first reached the national market skeptics were in the majority with their prophecies of failure. Yet, within six or seven years (by 1958) they represented 45.9 percent of national sales. Again, when the 100mm cigarets was widely launched in 1964, it was greeted with disparagement by the "experts." It was, said they, too cumbersome for pockets or purses, its very size would be reason for an intensification of another drive by the powerful anti-cigaret groups (it was; but anyone could have made that ordinary guess) and it couldn't be dispensed through vending machines (but they were). Within a decade--aided by Philip Morris' popular "cigarette-break" promotion of Benson & Hedges 100s, the lengthy cigarets held 25 percent of the market.

Except for currency, nothing passes more frequently across retail counters in the United States--perhaps in Europe as well--as cigarets. Ranking second among the mass outlets in the States were the nearly one million cigaret vending machines. Puzzled, as they were at first, by the advent of the 100s, the manufacturers of automatic dispensers quickly adapted their machines to the new size. When the 120s appeared they represented merely a new (and not insuperable problem) for the makers of vending and tax-stamping machines.

Rowe International, Inc., pioneer in automatic cigaret dispensers; Vendo Co, which had been out of the cigaret vending business for a couple of years, were either producing new machines by the fall of 1975 or were test-marketing those that dispensed 120s. Pitney-Bowes, Inc., a major manufacturer of tax-stamping machines, was preparing to enlarge its apparatus to handle the 120s but new castings were required. It would appear that the greatest costs imposed by the new elongated cigarets had to be borne by their manufacturers through the adaptation of making and packing machinery. The cost of rebuilding a making machine alone was estimated to be $250,000.

Generally, the cost of cigarets delivered by vending machines is higher (20 to 50 cents) than the prices charged in supermarkets. In 1975 Business Week reported that cigaret manufacturers were paying distributors "$3.00 a case" to meet state tax regulations and pay the operators of vending machines for displaying their brands in dispensers.

By August More and Saratoga were close to holding two percent of the market. That success inspired further entries in the 120s field. Among them were Reynolds' Dawn (especially for women--but soon withdrawn). Brown & Williamson's Capri, Suede and Phoenix and two by Lorillard: Max and L.T. Brown.

The FTC as militant

In mid-March 1975 the FTC announced that it was "mad" at the Big Six. It charged the companies with numerous violations of the agreement signed by each in February 1972 to maintain specified type sizes for the health warning required in cigaret advertising. The sizes were now said to be too small. The fine recommended by the FTC legal staff for each violation was too large: $10,000. The 1972 compact had set the fine at $5,000. The fact that the nation was in the throes of inflation was not the reason why the proposed fine was doubled. Congress was responsible for that through an Act

passed in 1975. Were the full recommended fines to be judicially sustained, the total would reach a ruinous amount.

By agreement, the type size of the health warning in small-space advertisements had been fixed at 10-point. That size was to be increased to 16-point in full-page newspaper copy, excluding tabloids.

Attorneys for the half dozen companies advised the FTC complainants that advertiser mats, with the required size types in health warning copy, went regularly to newspapers. What occurred then, legal counsel advised, was that "size deficiency (resulted from) 'shrinkage' of newsprint in the printing process."

Around the end of July it was reported in <u>Advertising Age</u> that the FTC had sharply curtailed its objective of seeking monetary penalties. Its revised intention was to sue on only two issues: the omission of conspicuous health warnings on vending machines and other point-of-sale equipment and failure by the companies to use Spanish for health warnings in papers of that language.

Commission spokesmen were said to have conceded the accuracy of the argument that type-size deviations resulted from printing procedures; not from deliberate evasions. The FTC staff involved was instructed to negotiate with representatives of the Bix Six.

So said Advertising Age, ordinarily a paper of superior dependability. This time its reporter slipped, for the widely accepted, welcome account of a mellowed FTC was mere gossip.

For in Mid-October, at the request of the Commission, the Justice Department entered suit in a Washington district court against the six chief American manufacturers of cigarets. Civil penalties were sought for alleged failure of the Bix Six to adhere to the 1972 consent agreement in all its particulars.

Concurrently, the FTC announced that were it awarded the monetary penalties demanded, it would establish an anti-cigaret trust fund. Its purpose would be the issuance of educational advertisements stressing the health hazards of smoking cigarets.

The cigaret manufacturers involved had better information about the status of the intended suit than Advertising Age. For in mid-August, they had made their first legal attempt to thwart the FTC. They began proceedings in federal court. A declaratory

judgment was sought to stay "the FTC from instituting a civil penalty action against them over. . . unspecified violations."

Future advertising and promotions were jeopardized because of the Commission's failure to have been legally specific. Furthermore, it was stated in the appeal for a declaratory judgment, that in 1972 and 1973 the FTC had reported to Congress that "the cited companies were in (compliance) with the voluntary agreement."

The New York federal district judge to whom the manufacturers appeal had been assigned made a quick decision. Early in September he denied the appeal. He stated in his ruling that the petitioning companies had failed to prove "irreparable injury."

Among the speculations that followed the actions of the companies and the FTC there was only one of certainty: the suit and its defense would be unusually protracted.

Faced with that unpleasant prospect, industry management found a small compensation in another FTC decision. The agency denied the petition of that ardent anti-cigaret missionary, John Banzhaf, to ban cigaret advertising from outdoor boards.

Other cases; other places

The three "class actions" by tobacco growers against the chief cigaret manufacturers, mentioned earlier in this work, were hampered for the plaintiffs by a court decision in one of the suits. It was denied the status of a class action. An appeal from that determination was promptly filed. The remaining actions for damages of about $2.5 billion were continued. The anti-trust complaint was retained.

There was something in the air--it couldn't have been cigaret smoke--that inspired litigation. A curious lawsuit was brought by the legal staff of Philip Morris against the R.J. Reynolds Tobacco Company. It was a serious "light" matter. The basis of the suit was that the use of "Lights" in the labeling of Winston Lights was a trademark infringement of Marlboro Lights and its use, therefore, represented "unfair competition." The cigaret extension of the most successful of Philip Morris' brands had been on the market several years before Reynolds' Lights.

A number of wise men in the industry expressed the opinion that the lawyers of Philip Morris had nodded in bringing suit. After all, "lights" as an adjective is a manufactured or nonce word derived from a common descriptive English term. And, on the sidelines, were the usual contingent of professional skeptics

who agreed that the canny management of Philip Morris had seized an opportunity to obtain a degree of limelight for Marlboro Lights. On reflection, that suspicion seems a most invalid one in view of the exceptional consumer acceptance of Marlboro, with or without a modifier.

Judge Charles E. Stewart, sitting in a New York City federal district court ruled that Marlboro alone was the trademark. "Lights" served as an illustrative term which differentiated the low tar/nicotine content of the cigaret from other Marlboros.

"Light" had been registered some time earlier by Philip Morris. During trademark research, a "Light" registration held by New Directions Film Co., a producer of television commercials, was discovered. It was then found that the registration had been "improperly and unlawfully" obtained.

There was no further legal action, for the New Directions' registration was conveyed to Philip Morris. That, however, produced no benefit for the firm, for it was soon found that the assignment itself was invalid!

This comedy of errors may have given the legal talent of

Philip Morris a pause but, if so, it was only a momentary one. The firm appealed the ruling of Judge Stewart. Management was determined to fight for its right to "light,"--no matter how spelled. It thereupon involved itself in three further suits. Its purpose now was to protect the use of "Lite" by Miller Brewing Company. The suits were against Schlitz who was being very proper in sticking to "Light," the Genesee Brewing Co. which prefered "Extra Lyte" and Peter Hand Brewing Co. for its preference for "Extra Light."

The reasoned opinion of objective observers was that the final decision would be "Let there be 'light' in any form!"

The new "tar derby"

The drive of anti-cigaret organizations and of individuals to lower the tar content of cigarets was fairly soon to lose its force. That was the result of the efforts of the cigaret industry--not of the feverish opposition.

But in the spring of 1975 the time had not yet come when low-tar cigarets dominated the market. Therefore, when the American Cancer Society demanded that 19mg of tar should become the maximum permitted in cigarets, the industry promptly refused. Its members foresaw that, had they acceded to the requirement,

there would be further concessions to make. Had, say, the target of the opposition been 15 mgs of tar as the permissible top, 18 of the 20 best-selling brands would have to be revised or withdrawn. Among those 20 the only low-tar/nicotine brands were Vantage and True.

What may have been an industry test of consumer reaction, rather than aggressive defiance of the anti-cigaret lobby, came in the early months of 1975. Reynolds and Philip Morris, almost concurrently, were giving a push to "full-flavor" brands. Industry men obviously knew and the consumer quickly learned that the term meant high tar and nicotine content.

It was reported that Philip Morris and Reynolds had a budget of $62 million between them to intensify promotion of their most popular "full flavor" brands: Marlboro and Winston. (Reynolds' advertising costs during this drive were estimated at $34 million.) A direct effect of the drive by the two firms to add to the roster of those who demanded a strong smoke was hardly unexpected. For the HEW expressed a demand, too, by urging Congress to legislate against high-tar cigarets.

Later in the year an interested onlooker of cigaret industry behavior would have been puzzled. For what had now become the

manufacturers' program was a complete reversal of the preceding plan. Did this change result from volatility, an improbable confusion or worry about the HEW's influence on Congress? No one in authority seemed to have a clear answer. What was clear by the year's end was that there were five low-tar brands whose manufacturers had collectively been spending in the range of $200 million to promote them.

The curtain raiser for the big advertising splash began with the introduction of Reynolds' Now, announced in mid-December. It was an 85mm type whose sponsors announced that it contained but 2mg of tar and was therefore "the lowest 'tar' and nicotine king size cigarette on the U.S. market."

As American Brands, a week earlier, had stood on the roof-tops to proclaim to a host of domestic smokers that its 70mm Carlton was lowest in tar/nicotine (1mg and 0.1mg, respectively), Reynolds' boast could hardly be sustained. When American made its objection known, Reynolds explained that the key word in its announcement was "king." Carlton, 15mm smaller was an undersized commoner. Thereupon the dispute went to court.

For "safety's sake" numerous smokers promptly accepted the low-tar cigarets. But their lack of flavor remained a cause of frequent complaint. The industry's best-known authority on cigaret sales and associated matters, John C. Maxwell, Jr., pinpointed

the general objection by his comment that if a cigaret is too low in tar, "all you get is hot air."

Hovering in the wings was a new Philip Morris- low-tar entry, Merit, which was soon to take center stage. Its content of tar and nicotine was much higher than Now or Carlton. But it had an element the others lacked: "enriched flavor." Quietly announced in the company's "Annual Report" of 1975, it was to join its competitors in the market place in January 1976. Its forthcoming introduction had been announced in the press a day after the December 15 notice by Reynolds. An account of it will not be overlooked in this history.

The imaginary victims

One of the more striking evidences of bureaucratic obsession and of fixed bias against the cigaret industry became more conspicuous during the mid-70's. This was based on the contagion theory, a fairly new, popular belief that the health of human beings in close proximity to users of cigarets could be affected by smoke in the ambient atmosphere.

The theory was contrary to a body of scientific evidence that had been provided several years earlier. That serious testimony had come from the Federal Aviation Admistration, the HEW, the Public Health Service, the Interstate Commerce Commission and

other federal agencies or individual authorities.*

More recently, the type of proof that inspires acceptance, added to the refutation of the contagion theory. Among these, the result of research conducted by two scientists of the Harvard School of Public Health, Dr. Melvin W. First and Dr. William C. Hinds, deserves special notice.

The researchers measured smoke and nicotine provided by non-participating cigaret users in several restaurants, and bars in a number of Boston sites and in passenger rail cars. The sampling device had been developed by the two scientists.

What they learned was that a nonsmoker in the places sampled inhaled the equivalent of 1/100 to 1/1000 of the smoke from a single filter cigaret. (Earlier laboratory tests had supplied higher figures than the realistic survey undertaken by the Harvard men.) Their conclusion was a logical one: the invisible gases produced by cigaret smoke cause discomfort to those nonsmokers nearby--not physical danger.

Bureaucrats and legislators infected with overdoses of bias rarely read or learn about such scientific findings.

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* See the "Third Continuation," pp 345-347; 358-361

If, by chance, they do, they seem always to be unwilling to accept testimony that conflicts with their strongly held opinions. But when one of the foremost (and highly respected) American scientists among the opponents of cigaret smoking publicly rejected the contagion theory, he is surely entitled to attention and belief.

The scientist was Dr. E. Cuyler Hammond, a specialist in epidemiology and chief statistician of the American Cancer Society. During the 1974 international conference on public education about cancer, held by the International Union Against Cancer, Dr. Hammond was a participant. (The Union, in 1975, published an account of the conference proceedings.) A part of his report read that there "was no shred of evidence" that a nonsmoker can get cancer from a "second hand" smoke. To suggest that it can was simply dishonest and he would testify to that effect in court were he asked to do so.*

Among other noted scientists and medical specialists(quoted in the April 1978 "Special Report--Smoking and the Public" by The Tobacco Institute) who contradict the smoking contagion theory,

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* Item 15 in "Chapter and Verse: Public Smoking," published by The Tobacco Institute, 1978.

two of the most prominent should be quoted. Dr. Ernest L. Wynder, president of the American Health Foundation commented that "Passive smoking can provoke tears or can be otherwise disagreeable, but it has no influence on health. In this case the doses are too small."

Dr. Gio B. Gori, of the U.S. National Cancer Institute stated that "If we want to remain with facts . . . not fiction, there is little danger of disease to people who stay in a room where people smoke."

The growing body of evidence provided by the most prominent scientists and medical authorities, all opposed to smoking, sufficiently disproves the assumption that atmospheric smoke contains a health hazard. Yet there have been an astonishing number of American localities that legally restrict public smoking.

No reasonable person objects to restrictions that make sense but the over-reaction by legislators and local authorities in regard to public smoking is too often senseless.* A bill passed by the New York State Senate in February 1975 formalized local

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* See "Smokers Facing New Restrictions" by Agis Salpukas, <u>N.Y. Times</u>, December 26, 1975, p.1

ordinances which traditionally prohibited smoking in mass transportation, libraries, museums, etc. But it went further by confining smokers to designated public areas. Violators could be fined as much as $100. A month later, the Assembly unanimously voted to lessen the penalty as too harsh.

A class action suit by six sports fans, on the issue of "passive" smoking, was entered in a U.S. District Court. The group contended that their health had been affected by the fume of cigarets smoked in La Superdome, New Orleans. They petitioned the court to prohibit cigaret sales and smoking in the stadium. Further, they asked the court to rule on whether their constitutional rights were being denied through the "involuntary consumption of hazardous smoke fumes." The suggestion that a Constitutional issue was involved appears to have been as superficial as the case itself.

Cigaret industry management could, to its own advantage, long ago have educated smokers on the common courtesy to which the nonsmoker is entitled. They well knew that the attacks on their product were increasing in intensity. A little more forethought would have indicated that the focus of opposition would swing to smokers. Their mass of consumers were entitled to the powerful aid the industry could have provided.

There had been a low-pressure, small-scale effort initiated by the most imaginative firm in the business: Philip Morris. That had taken place first in 1954--ten years before the report of the Surgeon General's Committee. It was an educational program on smoking manners. Part of it was in the form of a brief TV film presentation in several cities titled "Cigarettiquette;" linked with spots introducing king and long-size Marlboro and less extensively tied in with Parliament. Then, the older Parliament was combined with a "feature" on correct smoking behavior. Titled "Parliamentary Procedure," it was distributed to 800 women editors.

So far as can be determined these were the first and only attempts made by any American cigaret firm in the sensitive area of the social conduct of smokers. That the two mentioned were ineffective was undoubtedly traceable to their link with the sponsor's products. They were not accepted as friendly counsel but were regarded as a concomitant of promotions.

The literature of the commerce in tobacco and use of the "weed" for pleasure, particularly in the form of smoking is replete with criticisms, some of it virulent. England's famed Dr. Samuel Johnson summed up the general objection during the Age of Snuff when pipes were pretty much in the discard. That was long before

the advent of cigarets in Britain.

Johnson's comment is recorded in Journal of a Tour to the Hebrides, 1785, written by his enamored biographer, James Boswell:

> Smoaking has gone out. To be sure it is a shocking thing, blowing smoak out of our mouths into other peoples mouths, eyes, and noses, and having the same thing done to us.

What must have been disheartening news for the advocates of smokers'segregation came from Arizona--the first state with a law which restricted public smoking.

The state Senate had passed a bill which extended the public places where cigaret smoking had been prohibited. When the bill reached the House, Diane McCarthy,who chaired the Health and Welfare Committee, prevented any discussion of the measure by her committee. Though a nonsmoker, she categorized the "passive smoking" law, enacted in 1973, reported earlier in this work, as unenforceable. In that opinion she was joined by Senator Stan Turley.

Prohibitionists at work

The government of Sweden announced in 1975 that it would become the first nation to engage in a novel program: the creation of

an entire country of nonsmokers. Sweden had long held the admiration of liberals and progressives for the success of its health, labor, educational and humanistic programs, instituted by its long-established Socialist (non-Marxist) governments. There were prophets aplenty who announced that the controlling party (based on its record), would succeed in this latest--and most difficult--of its national enterprises.

Government officials had been expressing alarm over the considerable national increase in cigaret smoking, particularly among its young people. Yet, with a population of 8.2 million, reported by the 1974 census, their per capita consumption of cigarets (1560) was well below that of Denmark (1972), according to estimates provided by the World Health Organization (WHO) in 1973.

The Swedish project planned to focus on an intensive educational program, restrictions on sales, an increase in taxes and a ban on cigaret advertising. Taxes were already exorbitant, bringing the cost of a package to about $1.50.

The seemingly durable Social Democrat party could not have foreseen defeat in 1976, by a coalition of non-Socialist parties.

Its leadership seemed unaware of the imminent weakening of the economic condition of the nation. Had this foreknowledge been available to them, it is safe to assume that the nation's cigaret problem would not have warranted the ambitious proposed campaign with its enormous expense and revenue loss.

Norway had enacted legislation to add to the difficulties of its cigaret industry. It was far more restrained than Sweden's intended program. Yet, on July 1, 1975, all advertising of tobacco products was to end; cigaret packages were to be labeled with health warnings; no one under 16 could purchase cigarets at the usual outlets. The government was to set up an agency to regulate all health-related constituents of manufacturing: the nature of the content, weight, filter composition, etc. of cigarets.

The authorities of Minnesota, U.S.A., seemed much impressed by the project announced by Sweden. That nation was still the mother country of many of Minnesota's residents. Only Stockholm, as example, had (probably still has) more Scandinavians than Minneapolis.

Near the year's end the Indoor Clean Air Act (earlier referred to) was passed. Were anyone to light a cigaret anywhere in Minnesota

outside of a designated smoking area he- she was acting illegally. There was a prompt and wrathful protest from most of the state's smokers. Generally, the law was ignored.

Because of the confusion created by the unpopular law, the State Board of Health prepared a 16-page list of "clarifying regulations." There were to be public hearings on these--an invitation to boredom. After that, a final report was to be turned over to the state's Attorney General in 1976.

When the Third World Conference on Smoking and Health took place in New York City, early in June, speakers lauded Sweden and Norway for their anti-cigaret programs (Sponsorship of the meetings was by the American Cancer Society and the National Health Institute.) The Conference droned through its elaborate agenda, a dialogue of earnest missionaries speaking to themselves. As usual, one of the most **resilient** articles of commerce, the cigaret, was heavily abused. Yet there appears to have been no considerable desertions from the ranks of smokers as a consequence.

What seems to have been the only novelty during the Conference sessions was a suggestion made by Paula Green, president of the Green, Dolmatch advertising agency and a member of the American Cancer Society. She proposed that the "broadcast ban on cigaret advertising be lifted in order to give anti-smoking messages greater

access to the airwaves once again." When the industry heard of her proposal, its managers clearly indicated their lack of interest in a return to radio and TV.

Had a report from the chemical department of Indiana University been available some months earlier, it would have had a most upsetting effect on the cigaret-phobic conferees gathered in New York. For the departmental researchers announced that marijuana cigarets had a greater concentration of carcinogenic agents than those alleged to be in cigarets made of tobacco.

In some of its aspects the publicly expressed opposition to cigaret smoking is fanatical. In its basic thrust it is unreasonable, for proof is lacking that a moderate use of cigarets is dangerous to health. There are far to many variables in the theory that smoking will inevitably have lethal effects.

Yet the opponents of the use of tobacco for pleasure condemn that activity as one conclusively proved to be a hazardous habit. Therefore, whether openly expressed or not, the dedicated anti-tobacco missionaries are striving for the destruction of the cigaret industry.

These people regard themselves as motivated by a noble purpose: to save human lives. They live in a world where an intolerable number of human beings are killed or maimed annually through motor-car collisions. In their world there exist huge industries engaged in producing enormous quantities of distilled spirits. The use of this liquor has sickened and killed an untold number of men and women. In view of their noble purpose, therefore, shouldn't the human activists in the anti-tobacco camp, include automotive production and distilled spirits in their campaign of industrial elimination? Or is that idea too logical?

Additive aids for addicts

A decision by smokers to abandon their habit was, almost invariably, based on fear of bodily damage. Those who planned to quit for other reasons were well in the minority. But such persons were endowed with an element almost totally lacking in the first group: will power.

That latter fact had generated a minor industry that offered a confusing array of deterrents. These were not based solely on medication. They were accompanied by such aids as hypnosis, electric shock and other bodily abuses.

Science Digest (September 1975) published an article, "Do Smokers' Clinics Really Work?" by Harry M. Maurer and Dr. Jerome Schwartz.

This lists some of the medical compounds dating back to the 19th century, "withdrawal" and "cessation" clinics, gimmicks, recordings, a book. The authors thus provide sufficient proof that the correct method for ending cigaret use has eluded most practitioners, counselors and others in the "stop smoking" business.

A number of genuine advisory programs are conducted by non-profit health or church organizations. The fees of those who are engaged in the field for the practical reason of making money vary widely. The Science Digest authors list a few: among the best know, Smoke Enders, \$125 to \$175; \$375 for live-in centers, and \$450 for the Shick Clinics,* each an increase over earlier fees.

The suggestion of a California physician (unnamed) appeared in the respected London Lancet. He reported that he had inhaled pure nicotine through an aerosol sprayer. That prevented the "ill effects of tar and carbon monoxide." This method merely altered the form of use, and may have increased an addiction to nicotine.

There had been earlier experiments with nicotine taken by mouth or applied by an aerosol container. A series of tests revealed

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* For the Shick method see the "Third Continuation," p.350

that such introductions of nicotine to the body yielded exactly the same bloodstream levels as occurred from the smoking of cigarets.

Inventors continued to develop probable aids for those who wished to discontinue smoking or those in search of a "safe" cigaret. A patent for a case that delivered an electric shock to anyone trying to remove a cigaret from it was granted to John W. Pope in June 1975.

Richard R. Walton, in October 1975, was awarded a patent for a cigaret which would deliver a "palatable smoke with a diminished proportion of the dangerous products of combustion." This desirable object had been developed from a machine patented by Walton in 1969 which was used to test the effect of cigaret smoke on animals.

In his latest contribution to the array of cigaret novelties, Walton had produced one with outer and inner wrappers in which were lengthwise corrugations to contain the smoke produced by the cigaret user. It was Walton's claim that this arrangement permitted only smoke from fully burned tobacco to reach the smoker. Reburned elements of combustion were said thus to be excluded.

Bars to tar/nicotine

At the end of July the Ford administration finally requested Congress for authority to exclude high-tar/nicotine cigarets from the market. The request was "taken under consideration" Then, in the latter part of October, the HEW proposed that such a ban be enacted by Congress. This was no "ganging-up;" merely normal bureaucratic procedure.

It was time now for the FTC to make its report on the two components, always in bad odor with the anti-smoking faction. No one expected anything novel; Carlton would be welcomed for its low tar/nicotine content. (It was.) Players would head the list of tar culprits with its usual 31mg while English Ovals would be found guilty because of its highest quantity of nicotine, 2.3mgs. (They were.) There were heroic smokers around who preferred such highly flavored brands but not enough of them to make sales records.

Many of the 135 varieties of cigarets on the domestic market analyzed by the FTC technicians, with tar/nicotine content regarded as moderate to high, were among the most popular brands. Included were Benson & Hedges (9mg of tar and 0.5mg of nicotine;) Marlboro in 3 varieties, ranging from 13mg of tar and 0.7mg of nicotine to 15 and 0.9mg; Parliament king, 14 and 0.8; Saratoga

menthol, 15 and 0.1; Virginia Slims menthol and plain 17 and 0.1, up to the 125th entry, Philip Morris Commander, king, rated at 25 and 1.4mg.

The industry had, long before, adjusted itself to the continuing efforts to knock high tar out of cigarets and reduce their content of nicotine. The subject had become simply an inescapable bore. There was far more cheering and interesting news for management consideration. During the first nine months of 1972 and of 1973 only four new brands had been introduced in the domestic market. In a comparable period in 1974 there had been twelve. By October 1975 Advertising Age could list 14, ten of then 120's.

Now, in the last month of 1975, there were five entries, each designed to upset the activists among the anti-cigaret group. The three most conspicuous were linked by their manufacturer's assurance that each was "low in tar and nicotine," while one was presented as containing the least of these components, among all other brands.

These three have been previously commented on or referred to on p. 108. They were Carlton, Now and Merit. No manufacturer of cigarets could match the claim made for Carlton: that it contained but 1 milligram of tar and 0.1 milligram of nicotine. (How much lower could a cigaret get?) Now retained its crown as the lowest in tar of the kings. And Philip Morris, beginning its promotion

of Merit in appropriately caressing terms, proclaimed that this long-awaited, low-tar cigaret would be on the market in a month or less.

The concurrent appearance of these cigarets thwarted the demands of the American Cancer Society, the HEW and the Ford Administration, among others, that the manufacture of all cigarets with tar/nicotine content above a fixed level be prohibited. A variety of new flavorful brands containing little or moderate amounts of tar/nicotine would now be available to smokers.

The industry had a new sense of self assurance with its "safe" and "safer" cigarets. All that was needed now to add to its mood of well-being was infallible proof from the foremost medical authorities that man--the only animal that smokes--is not physically damaged by indulging in a universal habit.

Smugglers, sellers, smokers, sales

Close, though most unwelcome associates of the legitimate cigaret manufacturers, were the energetic, crafty men engaged in smuggling cigarets into high-tax states. New York was a favorite and most profitable-market.

There was little that manufacturers could do about the situation

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but complain, though there were few to listen. Most hurt by the unceasing flow of illicit cigarets into the big cities were the independent wholesalers and their employees. During the past decade at least 2,500 jobs were lost in the limited business which, it was reasonably estimated, had been deprived of $2 billion in income since 1964.

The director of the Wholesale Tobacco Distributors of New York, Morris Weintraub, who made the estimate, stated that cigaret bootlegging in 1975 alone would net $500 million to its participants.

With a high degree of intelligence available to the industry's top executives, law enforcement agents, tax authorities et al, none have been able to solve the general problem of cigaret smuggling. Occasionally a loaded truck of North Carolina cigarets on its way to a bootlegger's warehouse was captured. But there are too many avenues of entry into a city such as New York.

On other rare occasions the New York State Tax Department has made noteworthy hauls. One reported by Tax Commissioner, Alfred Donati, at the end of November 1975, was the confiscation of 60 cigaret vending machines containing packages with counterfeit tax stamps. The machines were the property of the Eagle Vending Company whose officers were arrested.

An attempt had been underway to organize a federally assisted interstate enforcement group whose chief function would be the curtailment of cigaret smuggling. The federal government, according to Paul Landau, Director of the Pennsylvanian Cigarette Tax Revenue Department, had been asked by 13 states for $750,000 to underwrite initial costs. At this writing, the request is undergoing bureaucratic "consideration."

One of the proposals most frequently made is for a federally imposed equalization of state cigaret taxes. This could probably prove to be effective if an increase in the federal excise were proportionately rebated to state and municipal revenue departments. That would have to be based on an average of the annual tax income of these departments over a fixed period.

In November 1975 several of the majors announced another price increase in all brands. Except for Lorillard, who stayed with a 70 cents per thousand raise, the general advance in price was 75 cents per M.

The introduction of low-tar/nicotine brands was getting much attention from industry executives and Wall Street. The chief interest of these observers, however, was directed at the advance

of Marlboro to the top spot among domestic brands. It was assumed that the management of Reynolds, being inhabitants of the Bible Belt, were urging the Lord in their daily prayers, to come to the aid of their chief brand.

But the Lord seemed to be busy elsewhere. The sales growth of Marlboro was unfaltering. John C. Maxwell, with his canny ability to fathom the secrets of industry sales, in mid-November 1975, announced that Marlboro had "moved ahead of Winston during the 4th quarter."

Reynolds refused to concede. Its management admitted that the race was tight but pointed to a "preliminary" tabulation by Maxwell in which he credited Winston sales at 91.5 billion and Marlboro's at 90.9 billion. An objective and able commentator, John O'Connor, Advertising Age's authority on the cigaret industry, suggested that anyone who "compares the annual growth rates of both Winston and Marlboro in recent years [reaches] the inescapable conclusion that Mr. Maxwell's statement--however premature Reynolds believes it to be--will be borne out in the near future."

In the lengthy (and invaluable) listing by Joan Mebane of historical events relating to Philip Morris Incorporated, the entry for December 1975 is "By year-end Marlboro became the top-selling brand

in the U.S. and all-time best-seller in the world."

According to "Tobacco Situation," annually issued by the Department of Agriculture, consumption of cigarets in the U.S. in 1975 totaled 599.2 billion. That included 10.9 billion shipped to overseas forces. (The FTC put domestic consumption at 603 billion.) The output of manufacturers was 651.2 billion units.

The advertising bills that promoted the impressive amount of tax-paid withdrawals in 1975 (588.3 billion) took $234,414,200 out of the manufacturers of the top 20's collective bank accounts. The ad investment of Marlboro alone was $22,093,000. Advertising Age put its ad cost per carton at a low 4.8 cents. Reynolds, according to the same authority, spent $31,733,000 to support Winston's sales of 91.5 billion units, which brought its carton advertising cost to 6.9 cents.

Benson & Hedges sold 26.2 billion in 1975. Its carton cost for promotion was 11.3 cents. Parliament, selling 9.69 billion, had advertising support of about $4.5 million. Sales of Virginia Slim's on which almost $6.5 million was spent to promote, reached 8.7 billion. Translated into carton cost for advertising meant 14.9 cents. In the domestic market, this brand was the top seller among cigarets designed for women.

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In his "Report" for 1975, Maxwell listed Reynolds as holding 32.1 percent of the market, with domestic sales of 192.67 billion cigarets. He placed Philip Morris' share at 23.6 percent with a sales total in the U.S. of 141.40 billion units. According to Advertising Age the media expenditures of Philip Morris for its collection of popular brands in 1975 amounted to $99.5 million.

In the process of spending $14.4+ billion for cigarets in 1975, consumers contributed over $2.2 billion to the federal treasury through excise; $3.4 billion to the states and $105,184,874 to cities, and counties. Cigaret taxes netted New York City $40,378,975. Per capita consumption in the U.S. including overseas forces was slightly lower (4,123) in 1975 than in the preceding year.

Four states--twice the number of those in 1974--increased taxes. Massachusetts' 16 cents per package tax went to 21 cents; New Hampshire's 42 percent of the retail price was converted to 12 cents, Maryland's 6 cents tax rose to 10 cents and Rhode Island tax of 13 cents became 18 cents. Attempts were made in 30 legislatures to add to existing cigaret taxes. Except for the four reported, other legislative taxing efforts failed. The District of Columbia's new tax of 10 cents was an advance of 4 cents per package.

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The international scene

When Philip Morris International acquired Companhia de Fumos Santa Cruz, Brazil, in January 1975, the event preceded by half a year the introduction of Marlboros to Brazilians.

The brand was accompanied by colorful displays of an American cowboy or a pair of them, long familiar wherever the brand was sold. While initial sales were regarded as satisfactory, management was soon made aware of critical comments in the more chauvinistic press and, to a lesser degree, from consumers. The critics were voicing a childish grievance: why should American cowboys be displayed when everyone knew that the most famous, most expert, most respected, most--any extravagant adjective that comes readily to mind would serve--cowboys were Brazilians?

The company's representatives on the scene were not unduly upset by these patriotic comments. They knew that a minor objection would be forgotten as Marlboros became more widely accepted and they liked being in Brazil. To prove that, they consolidated local operations when Philip Morris Brasileira S.A. de Cigarros finally opened its new factory at Curitiba, first announced in the 1973 "Annual Report."

Reynolds Industries was not too far behind Philip Morris in consolidating its position in Brazil. (Annual sales of cigarets there ran to an average 110 billion.) Its Brazilian subsidiary took over almost all of Cia Lopes S.A. Industrial de Fumos, manufacturers of 14 brands of cigarets.

For a number of years Bulgaria had held an especial interest for American and British cigaret manufacturers. Its tobacco monopoly was known as the chief exporter of cigarets to the world's largest market: the vast area usually described as the Balkan States and including Czechoslovakia, the U.S.S.R. and western Turkey.

In 1975 it was officially estimated that smokers in those countries had collectively consumed over 700 billion cigarets. Prophets among the economists concerned with world markets were predicting a 3.5 percent rise in the use of cigarets in the East bloc in 1976. (World sales in 1976 were calculated to be 3.3 trillion units, excluding the United States).

There was an inviting potential of profits in dealings with the Bulgarian state monopoly through licensing agreements, sales of U.S.-grown tobacco and of proprietary machinery. But manufacturers in the States and Britain, well aware of bureaucratic difficulties in Comecon countries, were marking time for an auspicious event

that would make their overtures welcome. That event came with the Nixon- Breshnev meeting in Moscow- and, for a time at least, when the possibility of détente between the U.S. and the U.S.S.R. had become believable. By 1974 Philip Morris had got within the inner circles of the Russian monopoly and Reynolds was soon to follow.

Dun's Review (November 1976) gives Philip Morris precedence in concluding arrangements with the Bulgarian monopoly officials. The New York Times of July 15, 1975, however, reported that Reynolds had licensed the state agency to manufacture and market Winstons earlier.

There could be no question about the fact that Philip Morris and Reynolds were playing tag on foreign soils. Two months after Reynolds had signed up Bulgartabac, Philip Morris International had a license agreement with the same government agency for the manufacture and distribution of Marlboro. Lucky smokers in the East bloc! They now had ready access to the two most-favored cigarets on the U.S. market, one of which was the best-liked brand throughout an appreciative world.

A novel filter brand was slated to make its appearance in July 1975. It was to be produced jointly by Philip Morris and the

Soviet tobacco monopoly. Labeled Apollo-Soyuz, it would be a commemorative cigaret honoring the first linkage by space craft. Both were to be sent aloft by the U.S.S.R. and the U.S. on July 15 to join two days later.

The Yava factory in Moscow was to process American tobacco and the finished product would be packaged in Switzerland. All but ten percent of the 500 million packages were set aside for distribution in the Soviet Union. Seven percent of the total was intended for European smokers; the unadvertized remainder would go to the American market. That insignificant quantity was meant for connoisseurs as, in the States, these cigarets were to be priced at 85 cents to $1.25 a package depending on sales or other taxes.

The plan would have evaporated had the projected space link-up failed. Eleven days after success was announced, distribution began. It is hardly necessary to state that the original public appearance of the Apollo-Soyuz brand was brief. Each was a collector's item where they were most scarce--a conversation piece. To put such rarities to the torch would not only have been a thoughtless extravagance; to appreciative persons it would have smacked of desecration! The 450 million packages made available in the Soviet Union were priced a little under the equivalent of the American dollar a package. Their swift

appearance on the black market at four times the original price and the rate at which they were sold were tributes to the desirability of these unique cigarets.

The same Committee of the U.S.S.R. Council of Ministers which had signed an agreement with Philip Morris in 1974, concluded a similar pact with Reynolds Industries early in July 1975. To that was joined a "protocol" with the Minister of Agriculture, one which entailed close cooperation of Reynolds' specialists in the growing, harvesting and processing of tobacco.

It may be that the Committee and the Minister of Agriculture had decided that the original contract with Philip Morris was too limited in scope. Or, it might have been that the Reynolds' representatives could withstand more vodka and speak better Russian than their American rivals who had concluded the 1974 pact. Whatever the cause, the Reynolds' group had got the Russians and themselves involved in a very comprehensive contract.

Coincidental, with the notice of the Bulgarian deal, Reynolds Industries made another announcement, one of more emotional than practical interest. Its manufacturing division was reported ready to abandon the Turkish characteristic long identified with Camels. That pictorial representation was rather hoary by 1975,

having first appeared in 1913. But it wasn't being dropped because the mandatory age for retirement was approaching. Reynolds' decision was in deference to complaints of American citizens with Greek or Armenian backgrounds who had historical reasons to dislike everything Turkish.

Earlier in the year--mid-May--the Portuguese government, following a European trend, had nationalized its tobacco industry.

Cytrel was still on the scene. Chief interest in it was being shown in Europe and little or none in the States.

Early in 1975 Celanese reported that Laurens-Rothmans A.G. (Swiss) was preparing to market a new cigaret. Its brand name would be Peer Special and it was composed of 20 percent Cytrel and tobacco. A Celanese spokesman assured the press that the composition contained no nicotine. Its chief virtue was that it held "only one-third to one-seventh of the tar level" of ordinary cigarets. He said nothing about flavor. The consumer would, obviously, be the arbiter of that.

American cigaret manufacturers were observing with keen interest--and very probably a degree of alarm--a government attack on the $5-billion-plus British cigaret industry.

Under the direction of Health Minister David Owen, a determined anti-cigaret missionary, a severely restrictive measure was under consideration by Parliament in the latter part of 1975.

What Parliament decided was often a source of inspiration for American legislative opponents of cigarets. Nothing nearly as prohibitory as the law proposed by Owen had yet been presented to Congress. The British industry, said the Health Minister, had only itself to blame if the new measure became law.

After television and radio advertising of cigarets had been prohibited in 1964, companies such as the Imperial Tobacco Group turned to Radio Luxembourg to convey their sales messages to British audiences. Magazines popular with youth served as general media for other manufacturers. Every firm in the industry that could afford it was sponsoring sporting events and using billboards to advertise their brands. Various government agencies had complained of such promotional activities but without effect.

Owen's proposed law, if legislated, would require cigaret manufacturers to relinquish 10 percent of the $150-million-plus annually spent in promoting their wares. This requisitioned sum would then be spent by a government agency in advertisements condemning cigarets.

No longer would manufacturers be permitted to sponsor any events concerned with sports. The restrained "Smoking can damage your health" warning notice required on each package of cigarets and in advertising copy was to become more specific. The addition of "cancer," "heart disease" and various respiratory ailments was recommended. The cigaret tax was to be further increased.

Most alarming to the British industry was a section of the proposed law by which cigarets would come within the scope of the Medicine Act. That would place tobacco products under regulations applied to drugs. Thereafter, officials of the Health Ministry could have full control of any promotions of cigarets.

One of the compromises offered by manufacturers during the 1975 summer was to confine advertising to X-rated motion pictures. (That implied that only sex neurotics and the morally corrupt would be invited to partake of nicotian delicacies!) Meanwhile advertising agencies and that part of the press whose revenues would be affected if the proposed law were enacted, were responding nobly to the cigaret industry's clarion call for allies.

Health Minister Owen was going to have an intense fight to

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accomplish his severe purpose.

The domestic scene

What had long been a favorite target of the many groups to whom cigarets were anathema was the federal price support of tobacco farmers' crops. The A.M.A. had, in 1974, caused a flutter of astonishment when an article in its Journal attacked the government's tobacco support program.

Early in August 1975 the HEW questioned the need for continued federal aid to farmers of the embattled crops. That implied suggestion for discontinuance was vigorously and more directly supplemented by the Health Research Group, a Ralph Nader organization. The group charged that the government was, in essence, subsidizing cancer deaths by providing around $60 million in support programs for tobacco farming.

A Tobacco Institute spokesman contested the demand for an end to government subvention of tobacco. His basic argument was a practical one: the price support program had the effect of reducing the availability of tobacco. For, were it withdrawn, farmers would be without control as to the amount of tobacco they could grow; the cost of tobacco would drop and that, in turn, would invite more people to smoke.*

* The Institute has issued a persuasively written leaflet which provides evidence that "there is no tobacco subsidy"--only a government "price stabilization--production control program."

The combined drives against support programs caused tobacco farmers no worry. The population of Congress had far too many senators and representatives from cigaret-tobaccos states.

Proof of their legislative influence came shortly after the HEW and the Nader--related Health Research Group announcements. In September Congress passed a $70 million price-support bill. That upset the Times' editorial board, among the more severe of the academicians who disapproved of cigarets. Its members produced an article urging a presidential veto of the congressional Act.

President Ford did just that but for reasons other than the health hazard argument advanced in the Times. A rise in price supports, he stated in his veto message, would add a cent to the cost of a package of cigarets. It would also make domestic tobacco less competitive in foreign markets.

The production of flue-cured tobacco in 1975 was 1,414,643,000 pounds (farm-sales weight), which exceeded by 169.5 million pounds the crop total of this type in the preceding year. Despite the predictions of deep-browed agricultural economists of an increase in farmers' incomes, the auction price for flue-cured in 1975 was 5.2 cents lower than the record $1.05 cents

per pound of 1974. Its crop value was $1,411,814,000. Also, some 25 million pounds less than the 1974 total was exported, with 522,454,000 pounds (farm sales weight) going to foreign markets. Its declared weight value was $663,266,000.

Burley production in 1975 was 28.6+ million pounds higher than in the preceding year. It averaged 105.5 cents (which was 8.2 cents a pound lower than in 1974) for a total crop value of $674,204,000. The quantity of leaf exported--92,422,000--was in excess of at least 24.5 million pounds over that shipped out in 1974. Its declared weight value was $123,504,000.

The total of cigarets manufactured in the U.S. that went overseas in 1975 was 62.3 billion. Philip Morris'share of this export total was 18,081 million units.

<u>Preferred reading</u>

Philip Morris shareholders surely undergo repeated pleasure as they study each new "Annual Report." Wall Street firms who turn out news letters, directors of investment funds, management and business firms have voluntarily and often bestowed inferential wreaths of praise on the collective brow of the company's executives. The succession of accolades seems not to have spoiled

anyone in the front offices.

The 1975 "Report" recorded with restrained enthusiasm another eminently successful year. What then could a Philip Morris stockholder express except bewilderment when Financial World, in its September 3, 1975 issue, stated that "Philip Morris 'growth stock' image was short-lived. Since last year its multiple has suffered steady erosion."!! (That is entitled to two exclamation points. And the phrase which follows, from the same source gets three.)

"With Wall Street looking for a reduced growth rate for Philip Morris while the company pushes hard to turn Miller into a solid profit contribution, an early return to recent years P/E's grows increasingly unlikely for this high-profit tobacco company that sells lots of low-profit beer"!!!

It was in April that the Philip Morris "Report" was issued. Either the author of the Financial World article hadn't seen it, wouldn't read it, couldn't read it, didn't believe it or . . . "[The cigaret sales] of Philip Morris U.S.A." it is reported in the readable type usual to the company's "Annual Reports," "continued to outpace the industry, increasing its unit sales by 6.1% . . . " And, two pages later: "Operating revenues for

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Miller Brewing increased 63.1% over 1974, and operating income rose to $28.6 million from last year's $6.3 million." Further, "Consolidated operating income [all companies] " increased by $89 million plus over 1974.

Equally pleasant reading for those stockholders to whom the progressive advancement of society is of major importance and to whom the broad fields of art are an intimate part of their lives, is the company's report of its participation in cultural and associated enterprises.

It stirs the imagination to read a list which includes in the 1975 events such colorful, exciting, extensive programs as an art commission, "Men in Space" by Frederick Shrady--15 commemorative sculptures of the U.S./U.S.S.R. Apollo-Soyuz project; "Arts for Living Center" at the Henry Street Settlement and an educational art program at the Marlboro School of Music (Vermont); "Suntai 75"--an exhibition of 800 works by 562 artists, Finland's first computerized art show, sponsored by Philip Morris Europe; "Latin-American Graphics"--46 graphics purchased by Philip Morris International which, having opened in Buenos Aires in 1971, "traveled to 20 cities and 8 countries of Central and South America, sponsored by local affiliates" and ended its tour in 1975; support for The New York Public Library and, separately

mentioned in the "Annual Report," "Frontier America; the Far West," which having opened at the Boston Museum of Fine Arts in January 1975 traveled to the mid--and far-West. "It was jointly sponsored in the United States by the National Endowment for the Arts and Philip Morris Incorporated on behalf of Marlboro." In 1976 the exhibition, was scheduled for appearances in four mid-European cities. Sponsored by Philip Morris Europe, it was retitled "The Far West."

The "Annual Report" always ends on a gracious note: an expression of appreciation addressed to Philip Morris employees around the world: 48,000 in 1975.

1976

1976

For the Philip Morris management there were several causes for celebration in 1976: the steady growth in net earnings of all operating companies; the advance of Miller Brewing Company to third place in the domestic market, the smooth functioning of the completed Richmond Operations Center. None of these occurrences, however, were unexpected. What was unforseen--and cause for astonishment--was the immediate success of a new cigaret that, in a market overloaded by 172 brands, found a place among the top twenty. The brand was Merit.

The rapid pace with which Merit achieved its coveted rank generated numerous approving articles. Many of them expressed the opinion that such an event was unprecedented. It was exceptional but, as will be shown, it was not unique, as was thought.

Meanwhile, the counterblast against cigarets, had become more blatant and more disturbing to the industry. The most accepted scientific evidence had provided abundant proof that the contagion theory associated with cigaret smoking was fallacious. But it was soon evident that the authors of this evidence had not been sufficiently convincing. The theory that cigaret smoke was contagious in confined quarters had developed into a contagion among state legislators and petty office holders.

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The ups and downs of "tar"

For a considerable number of years attacks on cigaret use had focussed on nicotine as the dangerous element in tobacco. Proper people were advised to shun persons with "nicotine-tainted" lips or those whose fingers and teeth were stained yellow by nicotine--an exaggeration, for nicotine is colorless. Often repeated was the statement that a single drop of "the distilled oil of tobacco" introduced into a small animal would cause its instant death--an experiment said to have been witnessed by Samuel Pepys.

Then the focus of attack swung to tar. In defense, the chief manufacturers of cigarets were soon offering their brands as "lowest in tar." The contest among these companies led to a noisy series of "low-tar derbies." Claims for the least tar were frequently found to be based on hot air--and that is what smokers of deceptively advertised brands got.

Finally, in the mid-70's, new types of cigarets were knocking the tar out of adversary arguments. The four major low-tar brands previously mentioned as first on the domestic market were American Tobacco's Carlton, (an old-timer), Reynolds' new Now and Vantage and the novel cigaret, Merit.

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They were soon joined by the Liggett Group's Vello (named after the Liggett research chemist, Vello Norman, who developed it), Lorillard's Golden Lights and True and American's revised Pall Mall. What all of these brands had to offer was most welcome to the majority of smokers: they were promoted as "safer" cigarets.

By March 1976, a little over 5 years past the broadcast ban on cigaret commercials, the industry had set out in the market places 105 new brands and line extensions. Of that lot, 33 went national, 13 of which were more or less successful. Reynolds declared that 7 of its 8 introductions in that period prospered. Philip Morris could lay claim to 7 new brands in an equal period of which but 3 were regarded as having met the sales departments' expectations.

In 1976 Brown & Williamson created a minor stir by promoting its new Fact as the "low-gas, low-tar cigaret." Industry executives in the chief companies found the use of "low-gas" objectionable. "Gas" was an explosive word when associated with cigarets. It could add fuel to the smoking-health controversy. It had in recent times been used by Ligget & Myers when promoting its Lark in the 1960's. That brand, said it manufacturer, was equipped with a "gas-trap filter."

Whatever concern was expressed over the objectionable term soon evaporated. It had become evident that sales of Fact were such that there was nothing for the competition to worry about. (It was withdrawn in 1976, re-introduced and failed again).

The introduction of so many brands that stressed a considerable reduction in their tar component was welcomed by a number of medical scientists, long members of groups opposed to the use of cigarets.

Dr. George Gori, a noted toxicologist associated with the National Cancer Institute, commented, "It's the exact kind of competition we like to see anytime." And Dr. Luther Terry, a former U.S. Surgeon General and a vigorous anti-smoking crusader, remarked that, "Much as I hate to give the smoker any encouragement for continuing his habit, I must admit that these 'safer cigarets' have helped to reduce the risks somewhat."

Magazine writers were busily sharpening their quills to comment on the peculiarities of an industry that had become conspicuously ambivalent. While most manufacturers were leaning heavily on the "low-tar" theme, Reynolds, for instance, was giving more push to More with its 22mg of tar.

The suit of American Brands against Reynolds because of the latter's slogan that its Now "has the lowest tar of all cigarettes" received a judicial verdict early in 1976. It satisfied neither plaintiff nor defendant. American's plea for an injunction which would prohibit Reynolds' continued use of the word "lowest" in the promotions of Now, as "false, misleading and deceptive" was denied on the grounds of insufficient evidence. Federal judge Morris E. Lasker did, however, grant some injunctive relief by ordering that Reynolds' "lowest"phrase on billboards be no longer used. Further, the firm's salesmen were not thereafter to present any point of-sale material carrying the disputed message.

Wondrous are the cerebrations of a judicial mind that can produce contrary rulings in a single decision.

There was nothing unusual about the suit brought by American Brands. Litigation is a way of life in the world of big business. What did make the suit something of a curiosity was provided by Reynolds. The original action had been filed on February 17. Reynolds replied promptly by announcing a plan for an extensive survey. It would now investigate Americans' claim that Carlton menthol with 2mg of tar was currently available in 45,000 retail outlets. If confirmed, the advertising copy that read "Now has the lowest tar of all cigarettes" would be altered.

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It is doubtful that Reynolds had had time to survey the full field. For, only about a month later, it modified the message for its controversial brand to "New, 2mg 'tar' is lowest." American waited for the court's decision before expressing its objection to Reynolds' revision, which had received judicial approval. Then, aided by delirious advertising specialists, the company opened a new campaign with "Nobody's [sic] lower than Carlton." That slogan and a later one for another brand implied that the management of American Brands and its advertising personnel were committed to a special purpose. They seemed determined that, in their misuse of English, none were to be regarded as lower than they were.

American was getting close to announcing a new Carlton containing but 1mg of tar. And Reynolds let the news leak that it was trying out a completely tarless cigaret in Europe.

"Consumer Reports" of Consumers Union published a fairly lengthy thesis on "Less Tar, Less Nicotine: Is That Good?" No one writing for the Union could possibly have replied in the affirmative. The author recommended that the National Cancer Institute of HEW should undertake the involved task of producing minimum-tar, medium-nicotine cigarets. Yet, should that effort succeed, it will only reduce the hazard to a smoker's heart and circulatory system. "It should not be labeled 'safe.'"

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That cautionary message appears to have been enough to prevent any constructive action by the HEW's Institute of cancer research.

As mentioned a little earlier, Reynolds had been pushing More despite its over-average content of tar. It may have been that promotion which inspired a bill offered by Senators Edward Kennedy and Gary Hart to place exorbitant taxes on high-tar cigarets. The intended legislation, if enacted, would have forced such brands off the market. Though defeated by a heavy negative vote, it was generally understood that the bill would be offered again in the following year.

During a Senate hearing on the bill, Curtis H. Judge, president of Lorillard, pointed out that the bill would "wreck the industry's distribution system by setting up 70 different prices on cigarettes." In this practical opinion he was joined by James C. Bowling. It was, said the latter, " a wholly irrational tax." He went on to remind the legislators that a three-level tax system applied to tar/nicotine content of cigarets had failed when in effect in New York City, and had to be repealed.

Senator Kennedy, as chairman of the Senate's health sub-committee, had become leader of the anti-cigaret legislators. Some time later, with reference to the defeat of the Kennedy-Hart bill,

and the difficulties his like-minded associates faced, he remarked, "Hour for hour, and dollar for dollar [the tobacco industry has] probably the most effective lobby on Capitol Hill."

The meritorious cigaret

Overshadowing all news about the industry and the contest of milligrams of tar in rival cigarets was the advent of the latest of Philip Morris brands: Merit. This long-sought "miracle cigaret" became the season's star and remained stage center throughout its introductory year. Its appearance on the scene was accompanied by an advertising splurge described in *Media Decisions* as "the most expensive new product introduction ever."

The glowing reports of this low-tar, low-nicotine specimen (originally 9mg tar; 0.7 nicotine) stressed the theme that never before in cigaret history had a brand new brand so rapidly won such wide consumer acceptance. These reporters and other commentators were ignoring or had forgotten the Camel record. That cigaret--the first true blend of domestic manufacture in the U.S.--had stampeded the competition when it abruptly moved into first place for American smokers in 1913. There was no question, though, about Merit's track record. In only three months after its national introduction in January, sales had taken it well past 45 older brands. When Philip Morris bought the cigaret business of Axton Fisher in 1944, it also acquired the name Merit, trade-marked in 1936.

By June 1976 Philip Morris executives, by then able to talk soberly about Merit and not just indulge in bubbling enthusiasm, stated that their prized new brand had 1.6 percent of the market. At that period, according to Advertising Age (June 21, 1976). even one percent translated into "$75 million at the factory level."

Maxwell in Dun's Review (November 8, 1976) had an article, "Puff Piece, Low-Tar Entries are the Hottest Selling Cigarettes." "Tars", he wrote, "are currently the industry's dirty-sounding, four-letter buzz-word." He predicted that domestic sales of Merit would exceed 8 billion units in 1976. That, he went on, "makes it possibly the single most successful new-brand introduction in cigarette history." As usual in his predictions, he was on target in his estimate of Merit's first year sales. By the end of 1976 the total was 8.5 billion.

Philip Morris' prize package had had exceptional help. First, it was supported by the extraordinary advertising investment of $44,597,000 in its initial year--a sum which broke down to $1.05 per carton. That was by far the highest average cost among the top 20 brands--and one that could hardly be long maintained. The push behind Merit did not depend on print advertising and other media alone. A sampling program, described as "mammoth" was carried on in the high traffic areas of 40 cities. The Reuben H. Donnelly Corporation had been

engaged for sidewalk distribution of packets containing 6 Merit cigarets. Donnelly had employed about a thousand men and women to carry out this operation.

Chemists at work

The discovery of Merit makes for an interesting account. From the Philip Morris laboratory specialists at Richmond, long directed by Dr. Helmut R. R. Wakeham (Vice President, Science and Technology) came the report that twelve years of single-minded research had gone into the creation of Merit.

Robert Ikeda, the firm's chief flavor chemist had been in charge of the formidable assignment of reducing the tar content measurably without affecting the taste to which experienced cigaret smokers were accustomed.

The combustion of tobacco when smoked creates a dizzying number of compounds--nearly 3,000. As filters were the most widely used cigaret form they primarily came in for intensive analysis by the team working under Ikeda's direction. After a series of experimentation, research on that cigaret accesory was set aside.

The work was being aided by a number of sensitive mechanical devices. The chemical constituents of tobacco smoke were

identified through the use of gas chromatographs--not one of the most recent devices. Then groups of trained sniffers, their knowing noses deep in olfactometers, reported what their olfactory sense told them to report regarding the strength of the odor delivered by the tested compounds.

By these exacting, tedious processes Robert Ikeda was finally able to isolate those chemical components of cigaret smoke which had the most satisfying flavors. There were twenty-five to thirty of these. They could be used as synthetic additives in low-tar, low-nicotine cigarets. It was from the ingredients of this lot that so flavorful a cigaret as Merit was produced.

During the years spent in search of the elusive flavor that would make a low-tar cigaret widely acceptable, a Reynolds' executive, Carroll Tompson, indulged in a boast that gave him momentary publicity. His firm, said he, knew everything there was to know about replacement flavorings when cigaret tar had been reduced. "We lead the world," he announced.

In that statement he was undoubtedly influenced by the fact that Reynolds, in 1976, had 64 gas chromatographs and Philip Morris only 47. Yet the 33 Ph.D's on its staff were outnumbered. There were 60 with that scholarly, honorific engaged in research at the Philip Morris laboratories, according to Fortune, October 1976.

Reynolds had made use of its research by improving the flavor of Vantage, one of its popular brands (14.3 billion sold in 1976) and others of its cigarets. The cynics were asking why Reynolds, so well equipped, so knowledgeable about flavor additives,hadn't produced a Merit. From Reynolds, a diplomatic silence.

Preliminaries to success

Near the end of 1975 John T. Landry placed before his firm's product committee a plan for introducting Merit to American consumers. No time was to go into test marketing--and no less than $40 million should be spent during Merit's initial year in advertising and other promotion.

John Landry's reputation as one of the most successful specialists in the marketing of cigarets gave him the authority to propose a plan at once unconventional and expensive. It came in for some mild questioning from committee members but no serious objections. The proposed strategy was approved.

A fixed condtion of big business executives is a lively curiosity about competitors' plans. Whether or not Philip Morris is equipped with a gum-shoe department or uses other means of obtaining information, it had learned that Reynolds was preparing to issue a low, low-tar cigaret just around the time that Merit was to make its debut.

The brand was Now. Landry & Company needed no urging but they regarded the name in its imperative sense. Merit advertising had been fully scheduled and the making machines were rolling out an abundance of the new king-size cigarets. The prime necessity was the acceleration of direct promotion.

Philip Morris had a sales force numbering one thousand--just half of Reynolds'. Manpower, Inc. the Milwaukee-based agency for temporary help was contacted. It promptly placed around 200 experienced salesmen in ten major markets to introduce Merit to shops of the largest retailers.

It had originally been intended to use this auxiliary force for a month or six weeks. But the plan was working out so well that its members were retained for four months. During their contracts with major retailers the Manpower force was credited with distributing 1.2 billion Merit cigarets. The operation was described as the most massive of sampling programs. The recipients of these free cigarets in retail outlets showed their appreciation by giving prominence to point-of purchase displays and recommending Merit.

One phase of a 1975 research conducted for Philip Morris dealt with the ages of its customers. It was found that the largest group--34.7 percent--were in the 18-to 24-year bracket. Yet,